Avient Corporation (AVNT)

Updated November 2nd, 2022, by Ian Bezek

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	13.8%	**Market Cap:**	$2.6 B
Fair Value Price:	$43	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	12/15/22
% Fair Value:	65%	**5 Year Valuation Multiple Estimate:**	9.1%	**Dividend Payment Date:**	01/06/23
Dividend Yield:	3.5%	**5 Year Price Target**	$48	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Avient is a company in the specialty chemicals industry. It primarily produces resins and other plastic additives. The company's PVCs, polymer colorings and other products go into end products such as plastic bottles, flooring, and electronic equipment. Avient emerged in 2020 when its predecessor company, Polyone, acquired Clariant Masterbatch. Polyone itself came about from a merger in 2000 and historically has acquired numerous other chemicals companies to build out its operations.

Following its transformation into Avient, the company's acquisitive streak has continued. In April, the company announced plans to buy DSM Protective Materials for $1.485 billion. To help fund the DSM purchase, Avient recently sold off its distribution business.

Avient reported its Q3 earnings on November 2nd, 2022. Adjusted earnings-per-share of $0.59 missed estimates and were down on a sequential basis. Revenues of $823 million were flat year-over-year when adjusted for acquisitions and divestments. This was well short of expectations as analysts had expected mid-single digit growth. Avient also dramatically cut its forward guidance. This was an abrupt reversal from Q2, when Avient had reported stronger-than-expected numbers. Traders punished the company for the soft Q3 results, sending Avient shares to fresh 52-week lows. The company blamed weak customer demand and renewed Covid-19 lockdowns in China for the significant decrease in profitability. These factors seem likely to drag on Avient's results well into 2023.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.80	$1.30	$1.80	$1.96	$2.13	$2.21	$2.43	$1.69	$1.46	$2.51	***$2.55***	***$2.82***
DPS	$0.20	$0.26	$0.34	$0.43	$0.50	$0.58	$0.72	$0.79	$0.82	$0.85	***$0.99***	***$1.20***
Shares	89	95	89	85	83	81	78	77	91	92	***92***	***92***

Avient grew its earnings at a rapid pace between 2012 and 2018, with EPS tripling over that stretch. Since that period, however, growth has been much harder to come by. Earnings declined in 2019 and 2020 before posting a strong recovery last year. That momentum quickly faded in 2022 and Avient's latest earnings report hints at a much more challenging landscape for the company in the intermediate future.

Avient had also grown its dividend at an appealing rate, managing more than 17% annualized growth since 2012 and 11.3% annually over the past five years. That said, Avient's most recent dividend hike, announced October 13th, was for a much more conservative 4% increase. The company has generally maintained its payout ratio in the 20-30% range, although the payout ratio has been climbing in recent years.

Going forward, we estimate 2.0% annualized earnings growth over the next five years. This is a significant deceleration from past earnings growth. The company's Q3 earnings confirm the company's weakening growth prospects. Avient has successfully used acquisitions in the past to bolster growth, but this may be more challenging going forward as higher interest rates may constrain the company's ability to finance deals at acceptable terms.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.3	20.8	21.0	18.3	15.2	17.2	16.7	18.4	19.3	19.7	***11.0***	***17.0***
Avg. Yld.	1.3%	1.0%	0.9%	1.2%	1.5%	1.5%	1.8%	2.5%	2.9%	1.7%	***3.5%***	***2.5%***

Avient has generally maintained a stable P/E ratio of around 17 to 21 times earnings. However, the company's P/E ratio has now fallen to 11 amid the market sell-off. This is a significant discount to Avient's historical valuation metrics. This reflects some skepticism that Avient will be able to maintain its currently elevated profit margins.

Avient's dividend yield started off the in 2010s in the low 1% range. From 2016 and on, the dividend yield started to move up consistently, topping 2% in 2019 and reaching 2.9% in 2020. At present, the dividend yield has surged to 3.5%. As long as Avient can maintain its earnings during this economic downturn, that is an attractive starting yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	24%	17%	18%	21%	22%	24%	29%	46%	54%	34%	***39%***	***43%***

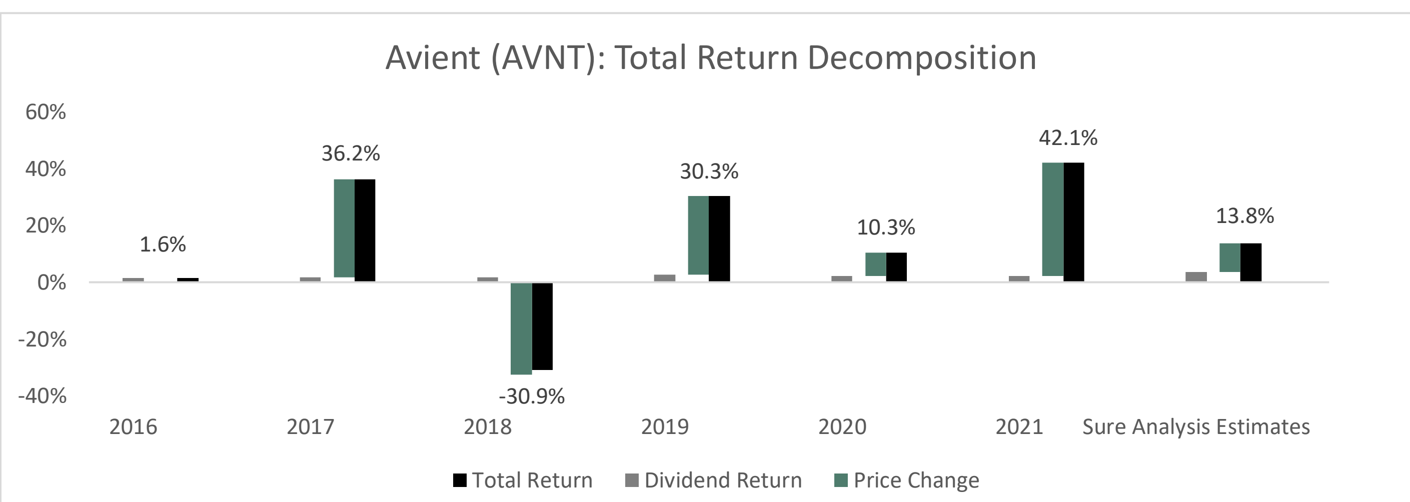
The specialty chemicals industry is known for being highly cyclical. That being the case, Avient's results have been quite strong compared to its sector. Still, as the above payout ratio shows, when earnings dip, such as they did in 2019 and 2020, the company's dividend coverage can slip a notch.

Avient announced that it will be issuing $725 million of 2030 senior notes in August at a 7.125% interest rate to raise cash. This is a somewhat expensive interest rate, though understandable given current market conditions. Management has guided to keeping its net debt to adjusted EBITDA ratio below 3.0x, and its recent move to divest the Avient Distribution business should help in reaching this target.

Final Thoughts & Recommendation

Given Avient's dramatically weaker than expected Q3 results and worsening outlook, we have significantly cut our earnings and growth estimates going forward. This has reduced our fair value estimate for the stock from $60 to $43. Despite that decline, shares appear significantly undervalued at today's price with a 13.8% annualized return outlook going forward. As such, Avient shares earn a buy rating today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,861	3,771	3,836	2,929	2,939	2,590	2,881	2,863	3,242	4,819
Gross Profit	531	662	708	652	676	596	625	657	784	1,100
Gross Margin	18.6%	17.6%	18.5%	22.2%	23.0%	23.0%	21.7%	23.0%	24.2%	22.8%
SG&A Exp.	417	458	553	394	409	423	446	500	595	718
D&A Exp.	70	111	134	116	106	98	92	88	115	146
Operating Profit	114	205	155	258	268	173	179	157	189	381
Op. Margin	4.0%	5.4%	4.0%	8.8%	9.1%	6.7%	6.2%	5.5%	5.8%	7.9%
Net Profit	72	244	79	145	165	(58)	160	589	132	231
Net Margin	2.5%	6.5%	2.1%	4.9%	5.6%	-2.2%	5.5%	20.6%	4.1%	4.8%
Free Cash Flow	50	33	116	149	143	123	178	219	158	133
Income Tax	30	58	11	26	60	1	14	34	5	74

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,128	2,944	2,666	2,595	2,736	2,705	2,723	3,273	4,871	4,997
Cash & Equivalents	210	365	239	280	226	244	171	865	650	601
Acc. Receivable	314	428	397	347	326	392	347	330	517	642
Inventories	244	343	309	287	266	328	285	261	328	461
Goodwill & Int.	746	925	953	942	875	1,011	1,062	1,155	2,317	2,212
Total Liabilities	1,497	1,966	1,889	1,890	2,010	2,106	2,183	2,221	3,159	3,207
Accounts Payable	296	387	366	352	321	389	305	288	472	554
Long-Term Debt	707	989	1,011	1,147	1,258	1,309	1,356	1,229	1,873	1,859
Total Equity	629	977	776	704	725	599	540	1,052	1,697	1,775
LTD/E Ratio	1.12	1.01	1.30	1.63	1.74	2.19	2.51	1.17	1.10	1.05

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.4%	9.6%	2.8%	5.5%	6.2%	-2.1%	5.9%	19.6%	3.2%	4.7%
Return on Equity	11.8%	30.4%	9.0%	19.5%	23.1%	-8.7%	28.1%	73.9%	9.6%	13.3%
ROIC	5.5%	14.8%	4.2%	7.9%	8.6%	-3.0%	8.4%	28.2%	4.5%	6.4%
Shares Out.	89	95	89	85	83	81	78	77	91	92
Revenue/Share	31.86	39.08	41.02	33.02	34.74	31.55	35.83	36.84	35.78	52.32
FCF/Share	0.55	0.34	1.24	1.68	1.70	1.50	2.21	2.82	1.74	1.45

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.